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JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

A Two-Part Report: A and B

NO. 27B
July 13, 1990

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Tokyo Pursues Independent Path On China At Summit

Tokyo's participation at the July 9-11 summit of the seven major industrial countries in Houston, Texas highlighted a new independence under which Japan may not always follow its allies lockstep on certain international issues. The thaw in East-West relations, which has reduced global military tensions and opened up new avenues for American, European and Japanese political and economic exchanges with the Soviet bloc, increasingly also may create new opportunities for Japanese diplomacy that diverge from the policies of the western industrial democracies.

Reiterating a June 26 announcement, Prime Minister Toshiki Kaifu indicated in a July 7 meeting with President Bush and in subsequent discussions with the other leaders that Japan plans to resume discussions with China on the Y810 billion ($5.4 billion at Y150=$1.00) aid package planned for disbursement over the 1990-95 period (see JEI Report No. 16B, April 20 1990). By this action Tokyo would ease the economic sanctions imposed by industrial countries on

international programs now under development, it also suggests that Japan "undertake all feasible measures immediately." Among those measures the council urges:

- An action program between 1991 and 2010 in which Japan would seek to limit greenhouse gas emissions "to the greatest extent possible" and to increase the ecological "sinks," such as tropical forests, that absorb CO_2.

- Promotion of scientific research and monitoring related to global warming.

- Development and transfer to other countries of technologies that can fix, reutilize or in some way diminish the amount of CO_2 and other greenhouse gases in the atmosphere.

The council's plan, being prepared for presentation at meetings of both the United Nations-sponsored International Panel on Climate Change in August and environmental ministers later in the fall, puts Japan at least a step ahead of the United States in seeking adjustments on climate change. But with heavy emphasis on the economic feasibility of emission controls, Tokyo most likely will remain in Washington's shadow for yet awhile longer on environmental issues. However, advances in technology and a desire for improved public ratings may work to ease some of Japan's cautions on addressing climate change.

Pat Murdo

Peru's President-Elect Fujimori Seeks Aid From Tokyo

Peru's president-elect Alberto Fujimori received a warm welcome but only cautious and conditional promises of financial support during his July 1-5 trip to Japan. The sole official present resulting from the visit was a $4.5 million grant. This contrasts with the sizable loan package Tokyo promised Mexico when President Carlos Salinas de Gortari visited in June.

Although Peru is home to Latin America's second-largest Japanese immigrant community, Japan's links with Peru, as with most of Latin America, traditionally have been weak (see JEI Report No. 15A, April 13, 1990). Tokyo disbursed about $28 million in aid to Peru in 1988 (see Table), which represented only 0.4 percent of Japan's total bilateral assistance that year. Furthermore, inflation and the threat of terrorism have made Japanese investors wary of the country. Yet the June 10 election of Mr. Fujimori, the first ethnic Japanese to be elected head of a foreign country, received considerable attention in Japan. During his presidential campaign the former agronomist claimed that his Japanese background would help debt- and inflation-ridden Peru attract significant aid and investment from Japan. It was clear throughout Mr. Fujimori's July visit however, that Japan will not loosen its aid purse strings until Peru meets the demands of its international creditors and adopts an economic reform plan.

The Tokyo meetings were the second part of a pre-inaugural trip aimed at putting Peru on firmer financial footing. Mr. Fujimori's first stop was New York, where he met officials of the World Bank, the International Monetary Fund, the Inter-American Development Bank and the United Nations. Peru's relations with its foreign creditors eroded in 1985 when outgoing president Alan

Japan's Official Development Assistance to Peru and Mexico, 1984-88*

(in millions of dollars)

	Grants			
	Grant Aid	Technical Cooperation	Loans	Total
Peru				
1984	$2.4	$12.3	$10.0	$24.9
1985	1.5	11.8	8.2	21.5
1986	7.6	14.5	10.2	32.3
1987	13.6	18.3	5.7	37.6
1988	7.5	19.3	1.6	28.4
Mexico				
1984	1.6	6.7	22.4	30.6
1985	1.6	9.0	8.9	19.5
1986	---	10.9	69.9	80.8
1987	0.3	17.1	17.6	34.9
1988	1.3	16.7	20.9	38.8

*Net disbursement basis.

Source: Ministry of Foreign Affairs

Garcia limited debt payments to less than 10 percent of the country's annual exports. The IMF and the World Bank responded by making Peru ineligible for new loans. Japan, too, has refused to make additional loan commitments, but it has continued to provide technical assistance and some grant money. President-elect Fujimori has promised to mend relations with international financial institutions. In Tokyo he struggled to convince political and economic leaders that Peru is ready to battle its economic problems. Last year the Latin American nation suffered more than 2,000 percent inflation, while its gross domestic product plummeted by over 12 percent. It now has an accumulated foreign debt of about $17.5 billion.

Prime Minister Toshiki Kaifu promised to send a team of economic advisers to Peru to determine how Tokyo can assist the country most effectively, but he sidestepped Mr. Fujimori's request for significant Japanese financial support. Other Japanese officials also were careful to condition promises of assistance on Peru's fulfillment of its commitments to the international financial community. Akira Nishigaki, head of the Overseas Economic Cooperation Fund, urged Mr. Fujimori to establish the conditions necessary for OECF to assist Peru. Minister of Finance Ryutaro Hashimoto also encouraged the president-elect to institute a revitalization plan for the economy before pressing for Japanese loans. He added that neither OECF nor the Export-Import Bank of Japan could issue loans without IMF approval, which is contingent on Peru adopting a plan for economic reorganization. Mr. Fujimori noted that Lima is ready to resume its dialogue with the IMF but would not necessarily accept the current IMF economic restructuring plan.

Unlike Japan's wait-and-see response to more aid for Peru, it is moving ahead on more help for Mexico. Last September Prime Minister Kaifu visited that country and announced a $1.4 billion debt-relief package (see JEI Report No. 35B, September 15, 1989). The Y122.8 billion ($818.7 million) loan package announced in June includes Y47.3 billion ($315 million) in yen credits from the Export-Import Bank of Japan for a project to refine lead-free gasoline as well as money for an oil-desulfurization plant and funds to rehabilitate railway locomotives. The Export-Import Bank of Japan's confidence in Mexico apparently has persuaded private Japanese banks to follow suit. Nine commercial banks recently announced their intention to join Ex-Im Bank in offering Mexico a total of $345.3 million in loans for a power-generation project.

Hoping to win similar private aid and investment, Peru's president-elect told a group of Japanese business leaders that they need not fear terrorist threats to industry since his administration would guarantee the profits of foreign firms operating in Peru. Mr. Fujimori said his economic revitalization plans include the gradual privatization of more than 200 government-run corporations, a restructuring of the agricultural sector and a bid to double Peru's exports to Japan. Last year Japan imported about $495 million worth of Peruvian goods. Perhaps in response to pressures to get Peru's economic house in order, Mr. Fujimori later outlined additional plans to increase indirect taxes and income taxes for the wealthy, the first specific reform measures he had proposed.

The $4.5 million grant from Tokyo is earmarked to restore an irrigation project in a valley north of Lima, which, until a widespread drought, produced most of Lima's food. Peru probably will have to wait before receiving much more from Japan. According to Mr. Fujimori, IMF officials are set to visit Japan in mid-July to request Japanese assistance in providing stopgap loans to cover Peru's $1.8 billion debt to the IMF, World Bank and Inter-American Development Bank. Japanese government and private-sector fact-finding missions reportedly are scheduled to visit Peru in mid-July and August.

Meanwhile, Lima undoubtedly was keeping a close eye on events at the Houston summit of major economic powers. President-elect Fujimori reportedly asked Mr. Kaifu to call the group's attention to the plight of Latin American debtor nations and to propose a wider framework to help Peru deal with its foreign debts than that outlined by President Bush in his new economic initiative for Latin America. Initial reports from the summit indicated that Japan supported the Bush initiative and is likely to contribute to the $300 million-a-year fund the United States has proposed for the Inter-American Development Bank.

While the election of Mr. Fujimori has resulted in greater play for Peru's problems in Japan, he must be able to go beyond getting attention for his country and, similar to Mexico, take steps toward initiating the economic reforms sought by the international financial community. If he is successful, a perfect match could emerge. Japan is searching for ways to fulfill its international responsibilities as the world's largest aid donor, and Peru is desperately in need of help.

Margo Grimm